

## Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-13 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 L-03

STR-08 SS-15 NSC-10 RSR-01 /165 W

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R 230829 Z JUN 73

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E. O. 11652: N/ A

TAGS: EFIN, OECD

SUBJECT: 99 TH MEETING INVISIBLES COMMITTEE: INWARD DIRECT INVESTMENT

REF: ( A) DAF/ INV/73/13; ( B) STATE 116084;

( C) OECD 14695

1. SUMMARY. INVISIBLES COMMITTEE ( IC) DECIDED JUNE 15, 1973 NOT TO SEND REPORT BASED ON REF ( A) TO COUNCIL AT THIS TIME. IC WILL INSTEAD SUBMIT NEW REPORT TO COUNCIL IN FALL WHICH WILL: ( A) CONCENTRATE ON SUBSTANTIVE PROBLEMS OF INWARD DIRECT INVESTMENT UNDER CAPITAL CODE; ( B) AVOID PERFUNCTORY PROCEDURAL WRAP- UP ON LAST SPECIAL DIRECT INVESTMENT SESSION; AND ( C) LAY GROUNDWORK FOR IMPROVED FIFTH SPECIAL SESSION IN JANUARY 1974. KEY EXPERTS RAISED VARIETY BROAD QUESTIONS RELATED TO INWARD DIRECT INVESTMENT, INCLUDING LINK WITH INTERNATIONAL MONETARY REFORM AND REVISION OF CODE. ACTION REQUESTED: IN ANTICIPATION OF FALL GO- AROUND ON NEW DRAFT REPORT TO COUNCIL BY IC, DEPT. MAY WANT TO CONSIDER EXTENT TO WHICH SUCH REPORT SHOULD CONTAIN ONLY CODE QUESTIONS OR BRANCH OUT INTO RELATED NON- CODE AREAS. END SUMMARY.

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2. SECRETARIAT ( HACKETT) LED OFF DISCUSSION WITH LIST OF " REASONS" FOR NOT SENDING REPORT SUCH AS REF ( A) TO COUNCIL. CHIEF AMONG THESE WERE: ( A) REPORT NOW WOULD NOT REACH COUNCIL' S AGENDA UNTIL FALL ; ( B) REPORT DUPLICATES IN MANY WAYS TWO PRIOR REPORTS TO COUNCIL ON SUBJECT SPECIAL IC SESSIONS; ( C) REPORT NOT NECESSARY AS WAY TO INFORM XCSS OF COMMITTEE' S ACTIVITIES, SINCE SECGEN ALREADY CHARGED WITH THIS RESPONSIBILITY; ( D) BY FALL, WHEN REPORT AVAILABLE TO COUNCIL, PARTS OF IT WILL HAVE BECOME OUTDATED AND INTERNATIONAL EVENTS SUCH AS FUND MEETING AT NAIROBI WILL BE AT CENTER OF STAGE.

3. AFTER NEGATIVE STATEMENTBY SECRETARIAT, EXPERTS WERE EVEN MORE DIVIDED ON SENDING REPORT THAN AT LAST MEETING OF IC. MOST STILL DESIRED SEND SOME FORM OF REPORT TO COUNCIL, BUT ALSO ACKNOWLEDGED SECRETARIAT POINTS. SUGGESTION BY BELGIUM EXPERT THAT REPORT BE REVISED TO MAKE IT AN INTRODUCTION TO NEXT SPECIAL SESSION RATHER THAN MERELY RECAP OF LAST SESSION WAS ACCEPTED AS GOOD COMPROMISE. EXPERTS THEN AGREED THAT:

( A) REPORT SHOULD BE LESS POST MORTUM ON MEETING WHICH TOOK PLACE SIX MONTHS AGO AND MORE PREPARATION FOR NEXT SPECIAL MEETING; ( B) REVISED REF ( A) STILL CONTAINED TOO MUCH PROCEDURAL WRAP- UP ON LAST MEETING, WHEREAS REAL NEED WAS TO GIVE GREATER ATTENTION TO SUBSTANTIVE PROBLEMS THAN IN REF ( A); AND ( C) REPORT TO COUNCIL SHOULD BE USED TO GET GOVERNMENTS' SUPPORT FOR IMPROVED SPECIAL SESSION IN JANUARY 1974. MAJORITY OF EXPERTS ASKED SECRETARIAT TO CONSIDER INFORMING XCSS IN MORE DETAIL ON WHAT IC IS DOING IN AREA OF DIRECT INVESTMENT, AND MOST GAVE IMPRESSION THEY THOUGHT THEIR XCSS REPS HAD INSUFFICIENT AWARENESS OF IC' S ON- GOING ACTIVITIES IN DIRECT INVESTMENT FIELD.

4. SOME EXPERTS ( NOTABLY FRENCH, SWISS AND BELGIAN) EXPRESSED VIEW THAT ROLE OF DIRECT INVESTMENT IN INTERNATIONAL ECONOMIC RELATIONS MAY HAVE TO BE RE- EXAMINED IN CONTEXT OF PRESENT REFORM OF INTERNATIONAL MONETARY SYSTEM, SINCE WHATEVER EMERGES IN NEW SYSTEM WITH LIMITED OFFICIAL USE

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REGARD TO LONG- TERM CAPITAL FLOWS WILL DETERMINE HOW OECD CAPITAL MOVEMENTS CODE ( CMC) SHOULD TREAT DIRECT INVESTMENT. IN MEANTIME, PROBLEM OF HOW TO INTERPRET EXISTING CODE AS IT AFFECTS DIRECT INVESMTNENT SHOULD BE HIGHLIGHTED FOR COUNCIL, IN ORDER TO AID ANY EVENTUAL REINTERPRETATION OR REDRAFTING OF PARTS OF CODE APPLICABLE TO DIRECT INVESTMENT.

5. CONCERNING "BIG PICTURE" AGAINST WHICH CODE  
TREATMENT OF DIRECT INVESTMENT SHOULD BE CONSIDERED,  
FRENCH CHAIRMAN OF IC (WAHL) EXPRESSED FOLLOWING  
THOUGHTS: (A) PROBLEM OF DIRECT INVESTMENT AND CAPITAL  
FLOW INITIALLY MISUNDERSTOOD. (B) COUNTRIES  
UNDERTOOK CODE OBLIGATIONS THEY CANNOT RESPECT. (C) RESTRIC-  
TIONS ON DIRECT INVESTMENT ARE GROWING, ESPECIALLY IN SOME  
"PACIFIC AREA COUNTRIES" (REFERENCE, WE ASSUME, TO  
AUSTRALIA AND NEW ZEALAND). (D) EUROPEAN COUNTRIES,  
WHICH NOW RECOVERED FROM PERIOD OF CAPITAL SHORTAGE  
AFTER WWII, HAVE BEEN THREATENED BY CAPITAL INFLOWS, AND  
THUS HAVE ALSO TAKEN RESTRICTIVE MEASURES WHICH IN  
SOME CASES AFFECT DIRECT INVESTMENT IN ADDITION TO  
OTHER KINDS OF CAPITAL. (E) QUESTION THEREFORE ARISES  
WHETHER CODE TREATMENT OF DIRECT INVESTMENT CORRESPONDS  
TO REALITY. (F) TO BE NOTED IN THIS REGARD IS QUESTION  
OF RELATIVELY LARGE COLUME (IN RELATION TO DOMESTIC  
SECTORS CONCERNED) OF DIRECT INVESTMENTS INTO EUROPE  
AND THEIR EFFECT ON CAPITAL MARKETS AND PROBLEM OF  
CAPITAL MOVEMENTS. (G) THERE IS GROWING REALIZATION  
THAT DIRECT INVESTMENT TOO CAN BE "SPECULATIVE." (H) DIRECT IN-  
VESTMENT IS ALSO RELATED TO HOST OF DOMESTIC ECONOMIC  
POLICIES CONCERNING ACCESS TO FINANCING, REGIONAL  
DISPARITIES, EMPLOYMENT, INFLATION, AND RESTRUCTURING  
OF INDUSTRY. (I) THERE ARE ASPECTS OF PROBLEM RELATED  
TO NATIONAL INDEPENDENCE, E. G. DIRECT INVESTMENT BY  
MNC'S IN STRATEGIC MATERIALS INDUSTRIES.

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6. CONCERNING IC'S EVENTUAL REPORT TO COUNCIL, WAHL THOUGHT REPORT SHOULD SAY SOMETHING ABOUT COUNTRIES' LAWS AND PRACTICES IN REALM OF INWARD DIRECT INVESTMENT, BUT NOT BE TOO PRECISE ABOUT NAMING COUNTRIES ( E. G. FRANCE, AUSTRALIA, ETC.), SINCE THIS LIKELY IMPEDE OECD DISCUSSION. HE THOUGHT IC'S SPECIAL SESSIONS HAD REVEALED DEGREE TO WHICH GOVERNMENTS LACK INFORMATION ON PROBLEMS FACED BY THEIR OWN DIRECT INVESTORS ABROAD. HE SUGGESTED THIS MIGHT MAKE IC WANT TO SUGGEST ESTABLISHMENT OF " INFORMATION SYSTEM" FOR GOVERNMENTS, SO THEY WILL KNOW MORE ABOUT WHAT SPECIFIC PROBLEMS THEIR INVESTORS ARE EXPERIENCING. ALSO, HE POSTULATED THAT IF FUTURE INTERNATIONAL MONETARY SYSTEM IS RESTRICTIVE TOWARD CAPITAL MOVEMENTS, THERE WILL BE GREATER THAN EVER NEED FOR INTERNATIONAL COOPERATION AND INFORMATION ON WHAT ARE DESIRABLE AND UNDESIRABLE CAPITAL MOVEMENTS.

7. SWEDISH EXPERT REITERATED HIS POSITION THAT ARTICLE 11 ( B) OF CMC ( CONCERNING NOTIFICATION PROCEDURE IN CASE OF RESTRICTION ON INWARD DIRECT INVESTMENT BECAUSE OF ITS DETRIMENTAL EFFECT) SHOULD BE AMENDED SO AS TO LEGITIMIZE PROCEDURE OF COLLECTIVE NOTIFICATION  
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OF DIRECT INVESTMENT PRACTICES AS SUBSTITUTE FOR INDIVIDUAL CASE- BY- CASE PROCEDURE OF PRESENT CODE. SWISS EXPERT SUPPORTED THIS VIEW.

8. BELGIAN AND U. S. EXPERTS TRIED RETURN DISCUSSION TO MORE EVEN KEEL BY CALLING FOR NO IMMEDIATE AMENDMENT OF CAPTIAL CODE. INSTEAD, IT WAS SUGGESTED IC, IN WORKING ON ITS REPORT TO COUNCIL, SHOULD GIVE PRIORITY TO POINTING OUT KEY PROBLEM AREAS UNDER CODE. IC WAS ALSO CAUTIONED TO THINK ABOUT COUNTRY PRACTICES WHICH " INDIRECTLY" RESTRAIN OR INDUCE DIRECT INVESTMENT.

9. U. S. EXPERT ALSO CAUTIONED THAT ALTHOUGH MANY OF THESE GENERAL IDEAS WERE INTERESTING, IC OUGHT TO CONCENTRATE ON PREPARATIONS FOR ITS OWN NEXT MEETING AND LEAVE BROADER QUESTIONS IN OECD CONTEXT OF XCSS. HE HOPED THAT IC WOULD NOT POSTPONE ITS OWN REPORT ON CODE- RELATED PROBLEMS OF DIRECT INVESTMENT SIMPLY BECAUSE MAJOR POLICY QUESTIONS BEING DISCUSSED ELSEWHERE HAVE NOT BEEN RESOLVED.

10. SECRETARIAT ( SCHLEPEGRELL) INTERPRETED DISCUSSION TO MEAN IT SHOULD DRAW UP LIST OF CODE QUESTIONS AND RELATED NON- CODE PROBLEMS. IN FALL IC COULD THEN PICK OUT ELEMENTS FOR SUBSTANTIVE REPORT TO COUNCIL IN PREPARATION FOR JANUARY 1974 SPECIAL SESSION.

11. COMMENT: WE WERE DISAPPOINTED THAT IC CHOSE TO PUT OFF REPORT TO COUNCIL FOR SEVERAL MONTHS. WE BELIEVE, HOWEVER, THAT LINKING SUCH REPORT TO WAYS TO IMPROVE IC' S NEXT SPECIAL SESSION IS GOOD ALTERNATIVE TO SUBMISSION PRESENT LONG- OVERDUE REPORT. CONTENT OF NEW REPORT IS STILL UNCERTAIN, ALTHOUGH WE HAVE REQUESTED THAT IMPORTANT ELEMENTS OF REF ( A) BE RETAINED. DEPT. MAY WISH IN MEANTIME TO CONSIDER POSSIBLE ROLE OF IC REPORT TO COUNCIL IN LIGHT OF JULY XCSS MEETING, AND ESPECIALLY DEGREE TO WHICH IC REPORT CAN ( OR SHOULD) DRAW ATTENTION TO ASPECTS OF INWARD DIRECT INVESTMENT WHICH ARE NOT COVERED BY CODE, BUT WHICH ARE CLOSELY RELATED TO IT.

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